



*United States Attorney
Southern District of New York*

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FORMER CEO OF SENIOR CARE INDUSTRIES, INC.
CONVICTED OF FEDERAL STOCK MANIPULATION CHARGES

DAVID N. KELLEY, the United States Attorney for the Southern District of New York, announced that MERVYN A. PHELAN, SR., the former Chief Executive Officer of Senior Care Industries, Inc. ("Senior Care"), was convicted in Manhattan federal court late Monday of conspiring to manipulate the stock price of two publicly traded companies.

The evidence at trial showed that from about April 1999 through about December 2002, PHELAN and others engaged in schemes to artificially manipulate the stock price of (1) Senior Care, a California-based builder of residential housing developments for senior citizens; and (2) Freedom Surf, Inc., a California-based manufacturer of surfing apparel. Both companies traded on the Over-The-Counter Bulletin Board.

The evidence at trial demonstrated that PHELAN was involved in founding both Senior Care and Freedom Surf, and maintained control over the vast majority of the securities of

both companies. The evidence further showed that PHELAN hired Alan Wolfson, a Salt Lake City-based stock promoter, to artificially inflate the stock price of both companies. The evidence demonstrated that Wolfson artificially inflated the price of both securities by (1) causing market makers to continually increase their bid quotations for Senior Care and Freedom Surf common stock without relation to genuine market demand, and (2) engaging in "sham" trades of Senior Care and Freedom Surf stock among his own accounts at steadily increasing prices.

According to the evidence at trial, during periods in which the stock prices were trading at artificially high prices, PHELAN and his associates sold blocks of both Senior Care and Freedom Surf stock to Salomon Grey Financial Corporation, a Dallas-based brokerage firm, at a discount of approximately 50 percent off of the artificially inflated prices. Salomon Grey's brokers then sold the shares of Senior Care and Freedom Surf stock to retail investors at or near the artificially inflated prices.

PHELAN was convicted of two counts of conspiracy to commit securities fraud and wire fraud and two counts of securities fraud arising from his manipulation of the stock of Senior Care and Freedom Surf.

Mr. KELLEY praised the efforts of the Federal Bureau of

Investigation and the Criminal Prosecution Assistance Group of the NASD for their assistance in the investigation and prosecution of this case. Mr. KELLEY also expressed gratitude to the SEC for its assistance in this matter.

United States District Judge ALVIN K. HELLERSTEIN scheduled PHELAN's sentencing for March 4, 2005. On each of the securities fraud counts, PHELAN faces a maximum penalty of 10 years in prison and a maximum fine of \$1 million, or twice the gross gain or loss resulting from the crime. The conspiracy counts each carry a maximum penalty of 5 years in prison and a maximum fine of \$250,000, or twice the gross gain or loss resulting from the offense.

PHELAN, 64, resides in Laguna Beach, California.

Assistant United States Attorneys ANDREW L. FISH and JOSHUA A. LEVINE are in charge of the prosecution.

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